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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 001644

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SUBJECT: CROSS-STRAIT POLICY/TIFA - ECONOMIC CONFERENCE
COULD HAVE IMPACT

Classified By: AIT Acting Deputy Director Charles E. Bennett, Reason 1.
4 b/d

¶1. (C) Summary. Taiwan will host the Economic Sustainable Growth Conference (ESGC) June 18 and 19 to discuss long-term strategies to maintain Taiwan's economic growth. Discussion topics will include cross-Straits liberalization, long-term economic competitiveness, and the social welfare system. With opposition participation in the conference and a possible shift in the Chen administration in favor of further economic opening with the Mainland, there is the potential for important cross-Straits economic liberalization measures. The conference could also help Taiwan implement commitments to the U.S. that could result from the TIFA talks later this month. End summary.

¶2. (C) Taiwan is planning a major conference to discuss long-term strategies for Taiwan's economic growth. It will take place June 18 and 19 and be chaired by Premier Su Tseng-chang. The conference will be similar to the

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Economic Development Advisory Conference convened in August 2001 but will be named the Economic Sustainable Growth Conference (ESGC - jingji yongxu zengzhang huiyi). The goal of the conference is to look at Taiwan's long-term, structural economic challenges and recommend solutions. The Executive Yuan's (EY) Council for Economic Planning and Development (CEPD) has been charged with organizing the conference. The EY has not yet publicly announced the conference, but CEPD Chairman Hu Sheng-cheng described current plans to AIT on May 12.

Planning Process - Tsai in Charge

¶3. (C) Vice Premier Tsai Ing-wen is the intellectual author of the conference and will oversee its planning. She will co-chair the conference preparatory committee, which will meet for the first time on Monday, May 15. The preparatory committee has 20 members and includes bi-partisan participation. Her co-chairman will be Legislative Yuan (LY) Vice President Chung Jong-chi of the pan-Blue People First Party. Other participants in the preparatory committee were nominated by opposition parties. Seven members represent EY agencies. Three categories of topics will be addressed: cross-Straits economic relations, long-

term competitiveness, and the social welfare system.

Topics - Looking for Cross-Strait Consensus,...

14. (C) According to CEPD's Hu, cross-Strait economic relations is the only issue where there is strong partisan disagreement. Because of the controversy, cross-Strait liberalization efforts must be discussed in conjunction with economic structural reform to ensure that Taiwan stays competitive. Further opening must be accompanied by incentives to encourage firms to invest more in Taiwan as well as third economies, such as India or Southeast Asia. Using similar logic, Hu argued President Chen's announcement of the "active management" policy for economic relations with the Mainland was a necessary preliminary step toward further cross-Strait economic opening. Chen had to first convince conservative constituencies that the Taiwan authorities had a plan to ensure that further opening would not represent a concession nor harm Taiwan's economy.

Structural Reform to Enhance Competitiveness,...

15. (C) Under the broad topic of Taiwan's long-term competitiveness, Hu highlighted four issues. First, the conference will look at ways to find a balance between environmental protection, economic growth and energy needs. He noted a steel mill and petrochemical plant already approved for Yunlin County (combined investment of US\$ 15 billion) will challenge Taiwan's unilateral commitment to comply with the Kyoto Protocol. Hu observed that the projects will address Taiwan's economic needs and enhance its competitiveness in the short term, but steel and

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petrochemicals are not Taiwan's economic future.

16. (C) The second issue related to long-term competitiveness is structural reform of Taiwan's agricultural industry. Hu said Taiwan must move away from rice production to goods with higher value added. While Hu was not aware of what kind of products Taiwan wants to produce, he said the Council of Agriculture has proposals on this topic and will be an active participant in the conference.

17. (C) The third and fourth issues under long-term competitiveness are reform of the financial sector and reform of other service industries. In both areas, Taiwan seeks to improve competitiveness by opening to foreign competitors. The conference will preserve the Taiwan authorities' existing goals for financial sector reform, but will refine the timetable and approach. Hu pointed out successes that Taiwan has already had in attracting foreign firms, including GE, New York Insurance, and other U.S. and Japanese firms, to invest in Taiwan banks. He also commented that the conference will provide a forum to address criticism that some financial reform policies, specifically the goal of cutting the number of holding companies in half, have liquidated state assets at below market prices and have unfairly benefited a handful of wealthy families in Taiwan.

...and Fixing Social Welfare System

18. (C) The final topic of Taiwan's social welfare system will address problems in the national health insurance program and pension system. The health insurance system has been plagued by financial shortfalls and been criticized for a controversial drug pricing scheme. Taiwan implemented a new national pension program in July 2005. Although many workers never benefited from the old plan, businesses and some academics have criticized the new

program because of the cost for businesses and the potential for mismanagement.

TIFA Impact - Setting the Agenda, Providing Leverage

¶9. (C) Hu believes that the outcome of the U.S.-Taiwan Trade and Investment Framework Agreement (TIFA) talks scheduled for May 25-26 will be useful in helping set the agenda for the ESGC and will give the Taiwan government additional leverage to overcome resistance to some proposals. For example, Taiwan can use the conference to convince farmers of the necessity of structural changes in Taiwan's agricultural industry in order comply with commitments from the TIFA talks. Hu made a pitch for a free trade agreement (FTA) by saying it would be easier to overcome domestic political resistance if the authorities can point to important benefits to the broader economy such as the possibility of an FTA with the United States. Econ Chief responded by saying that Washington Agencies are certainly prepared to listen to Taiwan's proposals on an FTA, but that arguments based on desirable political outcomes would not be as strong as ones well grounded in economic benefits for both sides.

Comment - Cross-Strait and TIFA Opportunities

¶10. (C) There is reason to be optimistic that the ESGC will yield positive results even on the contentious topic of cross-Strait economic liberalization. According to Hu's description, the opposition parties have already bought into the conference process. A string of recent events (including the announcement of possible unilateral opening to PRC tourists, liberalization of semiconductor packaging and testing and TFT-LCD manufacturing investment, and the visit by the PRC Vice Minister of Information Industry to discuss cooperation on technology standards) suggest the Chen administration has decidedly shifted toward further economic opening to the Mainland. Consensus at the ESGC and companion proposals to enhance Taiwan's competitiveness

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could give the administration political cover to implement even bolder opening measures. By the same token, the conference may give the administration political cover to implement commitments to the U.S. that could result from the TIFA talks later this month. End comment.
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